

The Commuter Tax Benefit: A Federal Incentive for Vanpool Riders and Their Employers

Introduction

What Is the Commuter Tax Benefit Program?

- One of many non-taxable fringe benefits that can be offered by employers (e.g., health insurance premiums, tuition reimbursement, etc.)
- First established under Energy Policy Act of 1992, more detailed guidance in TEA-21 (1998)
- Amount of benefit indexed to inflation unless overridden by legislation, as it was with American Recovery and Reinvestment Act (ARRA)

Current Benefit

- Under ARRA until 12/31/10:
 - Up to \$230/month for commuter highway vehicle (vanpool) or public transit pass
 - Up to \$230/month for qualified parking benefit provided by employer or to access transit or vanpool
 - Up to \$20/month for bicycle commuting expenses

What Type of Travel is Included in the Benefit?

- A ride in a commuter highway vehicle (vanpool) between home and work
- A transit pass
- Qualified parking
- Qualified bicycle commuting reimbursement

NOTE: Cash reimbursements are not allowed for transit instruments if they are readily available and there are no fare media fees or charges that effectively prevent the employer from obtaining them.

How Does It Work: Option 1

- Employer subsidy:
 - Employers provide employees with transit pass or similar item for vanpool rides
 - Can deduct as business expense
 - Tax-free benefit for employees
 - Employers deduct as business expense, which is exempt from federal payroll taxes

Note: Employer can provide a benefit that exceeds \$230/month, but the excess is considered taxable income

How Does It Work: Option 2

- Employee pre-tax set-aside
 - Employers set aside eligible costs of employee's commute , up to \$230/month, before calculating federal taxes
 - Employers pay payroll taxes only on the reduced amount of the employee's salary

How Does It Work: Option 3

- Combination of reimbursed benefits and pre-tax set-aside:
 - Employer partially subsidizes employees' eligible commuting costs and deducts as employee benefit
 - Employer withholds cost of employees' eligible commuting costs pre-tax
 - Combination of both cannot exceed \$230/month

Qualified Parking Benefit

- IRS: parking provided to employees 1) on or near work premises or 2) on or near a location from which employees commute to work by commuter highway vehicle, mass transit station, or vanpool
- Benefit can be administered by Option 1, 2, or 3, above
- Maximum nontaxable value: \$230/month
- Can combine commuter and parking benefit up to \$460/month

Qualified Bicycle Commuting Reimbursement

- Up to \$20/month
- For reasonable expenses as long as bicycle is regularly used for travel between home and work
- Example of expenses:
 - Purchase of a bicycle
 - Bicycle improvements, repair, storage

ALWAYS Talk to a Tax Professional First!

Many nuances:

- Accountability
- Administration
- Third-party administrator expenses

IRS guidance posted at www.ctaa.org/joblinks

Additional related resources:

www.ctaa.org/transportation_to_work

Transit Center's Commuter Impact Survey (CIS) Benefit

Transit Center's 2009 Survey

- Annual survey, designed to investigate the impact of commuting on employees and employer
- 2009: Impact of economic downturn on number of employers offering Sect. 132(f)
- Survey posted at www.ctaa.org/joblinks
- Additional resource: National Compensation Survey, March 2007

Survey Sample

Companies from New York, Chicago, San Francisco metro areas

- 50% small-sized companies (1-99 employees)
- 25% mid-sized companies (100-999 employees)
- 25% large-sized companies (1,000+ employees)

Employers Maintaining Benefit

- Survey found have been only minor cutbacks in terms of voluntary benefits offered
- Among companies planning to add a new voluntary benefit, commuter benefits are the top choice (7% of respondents)

Other Survey Conclusions

- Employers' primary intent in offering benefit: to help employees save money
- Employer's secondary intent: to attract and retain employees, lower operating costs and reduce carbon emissions.
- Commuter benefits play a more significant role in the central business districts, probably due to high availability of transit. This also suggests employers in these areas are highly dependent on transit for their labor pool

Conclusions (cont.)

- Smaller companies lag behind larger companies
- Definition of corporate responsibility/sustainability is expanding.

“The economic well-being of employers and companies’ environmental footprint now go hand-in-hand. In each of these areas – and collectively – commuter benefits are seen as playing an important role.”